MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

T1, 2018/2019

BCF7044 – CORPORATE FINANCE

(MBA Full Time)

1 OCTOBER 2018
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of **FOUR (4) pages** with **5 Questions** only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please print all your answers in the **Answer Booklet** provided.

QUESTION 1

a) Agency conflict between owner (shareholder) and executive (management) is common. How (in your opinion), companies may minimize and control this situation? (4 marks)

b) Corporate Finance Managers have to confront three strategic issues. Discuss. (6 marks)

c) Malaysia Private Retirement Scheme (PRS) has an unfunded pension liability of RM800 million that must be paid in 25 years. Financial analysts want to discount this liability back to present (current year). What is the present value of this liability if the relevant discount rate is 7.8 percent? (5 marks)

d) You plan to save RM300 per month for an approved retirement plan. The plan provides 10 percent interest compounded monthly. The first deposit is schedule one month from now. What is the value of your retirement account in 30 years? (5 marks)

(Total: 20 marks)

QUESTION 2

TMCC is a public listed company in Malaysia. Its management would like to know the company's cost of equity and impact to capital structure. Help the management to answer the following questions.

a) TMCC's common stock has a beta of 1.5. If the risk-free rate is 3.75% and the expected return on the market is 10%, what is TMCC's cost of equity? (4 marks)

b) TMCC has a debt-equity ratio of 1.5. Its weighted average cost of capital is 10% and its cost of debt is 7%. If the company is subject to a corporate tax of 35%,

i) What is TMCC's cost of equity capital? (3 marks)

ii) What is TMCC's unlevered cost of equity? (3 marks)

iii) What would be its cost of equity if TMCC change its debt-equity ratio to 2. (4 marks)

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c) TMCC has no debt. The weighted average cost of capital (WACC) is 9 percent. The company's market value of equity is RM23 million.

i. If there is no tax, what is TMCC's earnings before interest and tax (EBIT).
ii. If tax rate is 35 percent, what is TMCC's earnings before interest and tax (EBIT).
(6 marks)

(Total: 20 marks)

QUESTION 3

Malaysia Railway (KTM) is a public listed company. Its Board of Directors has agreed on the business expansion plan provided a proper viability studies are established. The approved countries for this investment are stated below.

Name of project: Saudi Arabia Madinah High Speed Rail.
Initial investment RM 220 million. Expected cash flow of RM150 million at year 1 and RM180 million at year 2. The required rate of return is 10%.

Name of Project: Turkey Istanbul Ring Road Rail.
Initial investment RM 400 million. Expected cash flow of RM 260 million at year 1 and RM 200 million at year 2. The required rate of return is 20%.

Name of Project: Indonesia Jakarta MRT.
Initial investment RM 230 million. Expected cash flow of RM100 million at year 1 and RM 120 million at year 2. The required rate of return is 15%.

a) Explain to the Board of Directors the strength of Net Present Value for your viability study. (4 marks)

b) Prepare Net Present Value (NPV) analysis for each project. (9 marks)

c) Which project should you advice? Explain your answer. (2 marks)

d) Explain to the Board of Directors the meaning of capital rationing and explain two types of capital rationing. (5 marks)

(Total: 20 marks)

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QUESTION 4

Dividend policy is one of key decision in the corporate world. A firm needs to make decision whether to pay out cash now or invest the cash and pay it out later.

a) Explain the relevance of dividend in corporate management practices. (4 marks)

b) Discuss two (2) methods of dividend distribution. (4 marks)

c) Menara Kuala Lumpur (MKL) has just declared and paid a dividend of RM2.50 per share on its stock. The dividends are expected to grow at a constant rate of 5% per year, indefinitely. If investors require a 12 % return on the stock:
   i) What is the current price? (3 marks)
   ii) What is the price in year 4? (3 marks)

d) You have invested 10,000 shares in Kulim Berhad at RM6.50 each share. The dividend per share is RM 1.20 and the market value of the stock is RM 7.20. Calculate:-
   i) Total Capital Gains (3 marks)
   ii) Total Return (in RM) (3 marks)

(Total: 20 marks)

QUESTION 5

a) Explain the term merger and consolidation. (4 marks)

b) Explain two (2) commonly used methods to determine the value of the target firm. (4 marks)

c) Discuss three (3) methods to effective working capital management. (6 marks)

d) Telekom Malaysia issued 11-year bonds in the year 2017 at a coupon rate of 6.9 percent. The bonds make semiannual payments. If the yield to maturity (YTM) is 7.4 percent, what is the current price of the bond? (6 marks)

(Total: 20 marks)

End of Paper